

Determinant factors of regional inflation in decentralized Indonesia

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Abstrak

The main purpose of this study is to identify determinant factors of regional inflation in the decentralized Indonesia. Inflation nowadays may spread widely and more difficult to handle than in the past. This condition has created difficulties for the central bank to maintain targeted inflation. The study employs field surveys and econometric tools. The field surveys are conducted in six cities--Medan, Semarang, Surakarta, Palu, Banjarmasin, and Pontianak. It is found from the cross tabulation that regional inflation is significantly affected by the infrastructure condition in the corresponding regions. Aside from the infrastructure condition, the logistic analysis concludes that regional inflation is also affected by local regulations. However, infrastructure still has a larger effect on inflation. The econometric methodology use unit root and Engle-Granger cointegration tests to prove whether the purchasing power parity among regions holds. It is found that purchasing power parity does not hold for all regions. Another tool is the variance decomposition?it is used to determine whether regional inflation is dominantly monetary or non-monetary factors. This study found that non-monetary factors are main contributors to regional inflation. Pooled data estimation with fixed effect shows that inflation is significantly influenced by non-monetary factors--the growths of local government revenues, routine expenditures, and local transportation costs. Local government routine expenditures have the largest elasticity on inflation.